

HABILITATION THESIS REVIEWER'S REPORT

Masaryk University	
Faculty	Faculty of economics and administration
Procedure field	Economics
Applicant	Ing. Rostislav Staněk, Ph.D.
Applicant's home unit, institution	Department of Economics, Faculty of Economics and Administration, Masaryk University
Habilitation thesis	Tax and Regulatory Compliance: Three Experimental Studies
Reviewer	Univ. Prof. Dr. Rupert Sausgruber
Reviewer's home unit, institution	Department of Economics, Vienna University of Economics and Business

I have read and evaluated the thesis of Rostislav Staněk. The thesis deals with economics of regulatory enforcement. This question is of first-order importance to numerous applications such as the enforcement of taxes, environmental regulations, mechanism design, and many more. The thesis is comprehensively and very well written. It consists of seven Chapters and an Appendix containing supplementary materials.

After a general Introduction (Chapter 1), Chapter 2 discusses the fundamental concepts and empirical findings of the economics of regulatory enforcement. This chapter is highly topical and informative. It includes the latest contributions to the literature and provides a highly competent survey of state-of-the-art research. The chapter deals with basic theoretical concepts, areas of application, problems of measurement, empirical results about the effects of enforcement parameters, and factors that put limits on efficient enforcement, such as concealment and overcompliance. Chapter 3 discusses various (dynamic and competitive) mechanisms for selecting taxpayers to be audited. The chapter concludes with a discussion of discretion as a potential alternative. The chapter is fully self-contained and provides a well-written survey of the literature on audit selection.

The core of the thesis consists of three experimental studies on regulatory enforcement. The studies are self-contained and can be read independently. All studies are based on careful elaboration of theoretical predictions. Because of the obvious difficulties in measuring compliance in the field, experimental methods are highly appropriate. The experiments are carefully designed and well executed, and the statistical analyses are thorough.

Chapter 4 reports the results of an experiment to evaluate the performance of a competitive audit selection mechanism, in which the probability of an audit depends on the own compliance relative to that of others. The main contribution to the existing literature is that the mechanism works only based on reported income, i.e., it does not need to assume that the enforcement authority has any information about individuals'

actual incomes. The chapter derives this result theoretically and confirms it by means of a laboratory experiment. The analysis is well conducted and the experiment is thorough. The results are interesting, clear, and compelling.

Chapter 5 extends the analysis by allowing for costly concealment activities. Two policy changes are examined: (i) an increase in the (basic) audit probability and (ii) a change from a random audit mechanism to a competitive audit selection mechanism. With respect to (i), the theoretical analysis reveals an ambiguous effect, because reported income and concealment activities, both increase in response to an increase in the audit probability. With respect to (ii), reported income and concealment activities both decrease. After accounting for strong learning, the experiment supports these predictions. Again, the analysis and the experiment are carefully elaborated.

Chapter 6 is on discretion in regulatory enforcement. The literature on this important topic is still scant. Therefore, the study is timely and highly welcome. The study implements an effort-provision experiment. In this experiment, players can invest effort to insure against the risk of a private loss. In addition, there is an official with an interest in maximizing the wealth of the group. In the strict-rule regime, the players always pay in private for their loss. In the discretionary regime, the official can decide whether to increase the wealth of the group by socializing the loss. There is a dynamic inconsistency problem inherent to the setup. However, the officials can overcome this problem by developing a reputation of being strict. The equilibrium prediction are that effort is higher in the strict-rule than in the discretionary regime, but that the discretionary regime is still more efficient (because of socializing the loss comes at a lower efficiency cost). The results of the experiment support these predictions. Further interesting details of the experiment show that subjects dislike discretion (when allowed to vote, they opt against it), and that this is because they dislike paying for others' losses they are not responsible for.

In summary, the thesis is of very high quality. It proposes interesting and highly rewarding research questions, uses appropriate methods, and it is carefully and competently written. The results of the thesis have strong prospects of being published in high-ranked scholarly journals.

My suggestions and comments are all minor and do not derogate the quality of this excellent research.

Reviewer's questions for the habilitation thesis defence (number of questions up to the reviewer)

Chapter 4:

- In the experiment, a concern with treatment "incomplete" is that experimental subjects may not trust the experimenter, i.e., they may believe that enforcement is dependent of actual income. How would such belief affect the results?
- It would be interesting to see whether subjects change their behavior during the course of the experiment, and whether they react to being audited and fined. So far, the analysis puts little emphasis on period effects and learning.

- The mechanism is inefficient because low-income subjects are audited more often than high-income subjects are. I wonder whether you could somewhat quantify this inefficiency in the experiment.

Chapter 5:

- It would be interesting get some intuition of what happens if the “same output” assumption ($q=100$ in the experiment) was relaxed. I understand that this would substantially increase the complexity of the problem. A few lines of discussion may nonetheless be helpful to grasp the relevance of the results.
- Can you also evaluate the treatment effects in terms of some standardized measure of efficiency?
- At times, the symbols are not used consistently (q vs. l for given output, π vs δ for audit probability).

Chapter 6:

- It would be interesting to see an analysis of the behavior of officials. Generally, we see little evidence for a dynamic inconsistency problem in aggregate behavior (e.g. from comparing HUMAN and NATURE). However, a more thorough analysis of individual behavior may be illuminating to understand what is going on.

Appendix: It would have been helpful to include an English translation of the instructions.

Conclusion

The habilitation thesis entitled “Tax and Regulatory Compliance: Three Experimental Studies” by Rostislav Staněk fulfils ~~—does not fulfil~~ requirements expected of a habilitation thesis in the field of Economics.

Date: 28/08/2019

Signature:

